Anthony J. Alexander

President and Chief Operating Officer

FirstEnergy Corp.

Before the Subcommittee on Domestic Monetary Policy,

Technology, and Economic Growth

Financial Services Committee

U.S. House of Representatives

"Encouraging Capital Formation in Key Sectors of the Economy"

April 18, 2002

Testimony of Anthony J. Alexander

Good morning Mr. Chairman and members of the subcommittee.

My name is Tony Alexander and I am president and chief operating officer of FirstEnergy, based in Akron, Ohio. FirstEnergy is a registered public utility holding company. Our seven electric utility operating companies comprise the nation's fourth largest investor-owned electric system, based on serving
4.3 million customers in Ohio, Pennsylvania and New Jersey.

Thank you for the opportunity to discuss the issue of capital formation as it relates to the energy industry.

Encouraging capital investment in the nation's electric system is critically important because maintaining an affordable, reliable supply of electricity – with a strong network to produce and deliver it – is essential to our economic growth.

With the development of competitive electricity markets, utility companies no longer have the obligation to build generating capacity and recover those costs through utility ratemaking.

Instead, the competitive market will determine if and when capacity is built.

This fundamental change in the manner in which electricity supplies will be developed has a significant impact on capital formation in the industry.

Investments in the energy industry, particularly in generation assets, must now compete with every other capital requirement in the market – and that means it is essential that regulatory, tax and other burdens do not discourage investment in this sector.

In fact, electric generating facilities should be treated as any other competitive business facilities and should be freed of the burdensome regulations put in place when these facilities were operated as part of vertically integrated, fully regulated public utility companies.

I believe that there are several ways to encourage needed investment in this segment of our industry.

First, government should provide more favorable tax treatment for generation assets.

Shorter depreciation periods would free up capital for reinvestment in energy markets, and make those markets more attractive to new investors.

The current 20-year depreciation periods for generation assets are outdated and far longer than for other capital-intensive industries.

For example, oil refineries and steel mills have depreciation periods for their facilities that are 10 and 7 years, respectively.

It makes sense that electric generating facilities have similar tax treatment.

Investment tax credits are another way to attract capital to the energy industry. Tax credits for new facilities would bring down the cost and minimize the risk of investing, making electricity assets more attractive.

Second, the industry needs a greater degree of certainty with respect to future environmental regulations governing generating facilities.

Potential investors in generation need to know what the regulatory future holds. Without good prospects for solid returns, they will not tie up capital for new or expanded facilities.

Accelerated depreciation and other tax treatments for environmental systems also will help encourage investment, because they minimize the impact of making future environmental retrofits.

Third, the government needs to support competitive energy markets by allowing those markets to develop unimpeded.

That includes ensuring that wholesale electricity prices are market-based. Artificial price caps – or pricing subject to refund – will only serve to stifle competition and create barriers to investment.

In addition to generation, the competitive electricity market also depends on an adequate transmission system. Even though transmission is still regulated, utility companies are being required to turn over control of their transmission assets to third parties.

There are limited options available that will encourage investments in assets over which the owner will have no control of operations, pricing or expansion. One way is to remove barriers to divestiture by reducing the current tax liabilities for the sale of transmission systems.

Another is through so-called participant funding, which requires that new investment be paid by the party requesting the expansion. And, finally,

ratemaking allowances that produce sufficient returns will allow the owner to make needed investments in the transmission network.

In order to create and support the kinds of markets that were envisioned when states and the federal government promoted competition, we first need to ensure that the steady and growing capital requirements of the electric industry are met.

Only with an adequate supply of electricity produced from diverse sources that include coal, nuclear, natural gas and renewables – and the proper system to deliver it – can customers be assured of reliable and reasonably priced electric service.

Thank you for the opportunity to share our views on this important topic.